

**BOARD OF INVESTMENT TRUSTEES  
MONTGOMERY COUNTY EMPLOYEE RETIREMENT PLANS**

**MINUTES – OPEN SESSION**

July 24, 2009  
101 Monroe Street, 15<sup>th</sup> floor  
Rockville, Maryland

Board Members Present:	Gino Renne, Vice-Chair Lodge Gillespie Meg Menke Steve Farber Jeff Buddle Joe Adler Joe Beach Jeff Sharpe Jennifer Barrett George Willie Sunil Pandya
Staff:	Linda Herman Marc Esen Brad Stelzer Stuart Potter
Others Present:	Mark Brubaker, Wilshire Associates Mike Dudkowski, Wilshire Associates Brad Atkins, Franklin Park Amy Moskowitz, Counsel to the Board

***CALL TO ORDER***

Mr. Renne called the open session of the Board to order at 8:30 a.m.

***DETERMINATION OF MEETING***

The Board unanimously approved a motion to move into closed session at 8:32 a.m. for the purpose of discussing the investment of public funds, pursuant to Maryland Code, State Government Article, 10-508(a)(5).

Mr. Renne called the open session of the Board to order at 9:37 a.m.

**Approval of the Minutes:** Mr. Sharpe moved and Mr. Adler seconded, and the Board unanimously approved the amended minutes of the May 15, 2009 meeting.

**ERS - Total Fund Benchmark:** Mr. Gillespie discussed the challenges of including private funds in the total fund benchmark due to the target allocation for the sectors being attained over a long period and the lack of relevant market indices. Mr. Stelzer provided the Board with background information on how private equity and private real assets had been included in the total fund benchmark and the problems with using this methodology. Staff, with concurrence from Wilshire, recommends the Board adjust the weight of private equity in the benchmark based on the current net asset value, lagged two quarters and adjusted for interim cash flow, and that the Venture Economics All Private Equity Index be used to represent the return of private equity in the total fund benchmark. Mr. Stelzer also presented the recommendation to continue utilizing the current methodology for the private real assets portion of the benchmark as there is no other suitable index. Staff requested the Board consider incorporating a 1% cash allocation into the benchmark which is the target level to meet liquidity obligations. After further discussion by the Board, Mr. Buddle moved and Mr. Sharpe seconded, and the Board unanimously approved the following resolution:

**0907-02      *Resolved, That the Board approves the following changes to the total fund benchmark as of June 30, 2009:***

- **Private equity – the Venture Economics All Private Equity Index will be used weighted by the current private equity value net asset value lagged two quarters and adjusted for interim cash flows**
- **Cash – incorporate a 1% allocation**

**ERS – Fixed Income Update:** Mr. Brubaker apprised the Board on events taking place in fixed income markets causing Wilshire and Staff to recommend the Board consider modifying the strategy allocation within the fixed income sector. He reviewed the issues with implementing the long duration strategy and the recommendation to add an opportunistic allocation to take advantage of current market dislocations as well as the recently announced government sponsored investment programs. Ms. Herman discussed the rationale for moving the currency managers to the opportunistic allocation. The Board discussed the recommended changes and the possibility of granting Staff additional authority to make investment decisions within prescribed parameters. After further discussion, Mr. Adler moved and Mr. Buddle seconded, and the Board unanimously approved the following resolution:

**0907-03      *Resolved, That the Board approves reducing the allocation to long duration to 12.5% by forgoing the beta replication and adding a 5% opportunistic allocation including the current currency managers.***

**ERS – International Equity Structure:** Mr. Esen presented the annual review of the sector, highlighting the trend of more plans moving to global mandates versus having separate allocations to domestic and international equities due to the increasingly global nature of the capital markets. He also discussed the portfolio's weighting to emerging markets versus the benchmark weight and recommended the Board reevaluate the weighting periodically. The strong performance on ERS international equity investment managers over the past 1-5 years compared to the benchmark was primarily due to stock selection by the active managers.

**ERS – Currency Manager Structure:** Mr. Potter presented an analysis of the currency overlay program including the manager's portfolio attributes, performance, use of the risk budget, and drawdowns. Staff recommended, and Wilshire concurs, increasing the tracking error for First Quadrant from 2% to 4% which should result in a pickup in expected return while enhancing the

risk/return tradeoff in the currency portfolio. After discussion, Ms. Menke moved and Mr. Beach seconded and the Board approved the following resolution:

**0907-04      *Resolved, That the Board approves increasing the tracking error for First Quadrant to 4% and maintaining a \$500M notional exposure for the currency portfolio.***

**ERS – Fixed Income Guidelines:** Mr. Potter informed the Board that, due to current market conditions, both BlackRock and STW had requested permission to exceed the 2% cure bucket for security downgrades. He discussed how the ongoing severe downturn in the US housing market led to numerous downgrades across a large section of non-agency mortgages irregardless of the underlying fundamentals of the individual securities. In addition, a significant amount of US Corporate bonds were downgraded in 2008 due to the current economic environment. Both managers believe the ratings do not reflect the underlying value of the securities. Mr. Sharpe moved, Mr. Adler seconded, and the Board unanimously approved the following resolution:

**0907-05      *Resolved, That the Board approves permitting BlackRock and STW to exceed the 2% cure bucket guideline for securities downgraded to below investment grade due to the current market environment.***

**GRIP Annuity Option:** Ms. Herman briefed the Board on the County Code requirement that the Board offer a “life only” annuity option to GRIP participants through an insurance company. She discussed the issue of restricting the offering to a “life only” annuity. Staff recommended the County consider amending the County Code to allow for other annuity options. The Board discussed the process and the services that would be provided by ING. After further discussion, Mr. Sharpe moved and Mr. Buddle seconded, and the Board unanimously approved the following resolution:

**0907-06      *Resolved, That the Board approves providing a life only annuity distribution option through ING, subject to contract negotiations.***

**Lexis-Nexis – Research Tool:** Ms. Menke discussed the Board’s request to purchase a subscription to Nexis, a search engine tool provided by Lexis-Nexis. After discussion by the Board, Mr. Adler moved and Mr. Gillespie seconded and the Board approved the following resolution:

**0907-07      *Resolved, That the Board approves a subscription to Nexis for a one-year term.***

**Business Continuity Plan:** Ms. Herman presented the updated Business Continuity Plan (BCP) which documents procedures that Board Staff, the County, and Board vendors will follow in the event of a disaster. The BCP was reviewed and updated with comments from the County’s Office of Emergency Management and Homeland Security.

**IRS Filing:** Ms. Moskowitz briefed the Board on the IRS reporting requirement for U.S. persons with a financial interest or signature or other authority over certain foreign financial accounts. She explained that due to the confusion surrounding who should file the report, the IRS has extended the filing date until September 23, 2009 and is currently taking comments on

the form and the instructions. The County Attorney's Office recommended that the Board not file the report before the September deadline.

**Board Officer Elections:** Mr. Renne reminded Board members of the upcoming election of officers, Compliance & Audit Committee members, and facilitators which will be conducted at the Board's September meeting. The Board members decided not to form a nominating committee.

**ERS Performance Review:** Mr. Brubaker presented an attribution analysis of the ERS portfolio compared to the benchmark for the 1, 3 and 5 year periods ending June 30, 2009. The analysis revealed what the major contributors/detractors to performance were within the categories of asset allocation, style effect, and manager effect over the various time periods. Wilshire will continue to provide similar reports on a regular basis. Mr. Atkins discussed the effect that the challenging credit markets and the global economic recession had on the private equity sector. Both investment activity and fundraising have stalled.

There being no further business of the Board, the open meeting session was adjourned at 11:30 a.m.

Respectfully submitted,

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Joseph Adler, Secretary